

107TH CONGRESS  
1ST SESSION

# S. 336

To amend the Internal Revenue Code of 1986 to allow use of cash accounting method for certain small businesses.

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IN THE SENATE OF THE UNITED STATES

FEBRUARY 14, 2001

Mr. BOND introduced the following bill; which was read twice and referred to the Committee on Finance

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## A BILL

To amend the Internal Revenue Code of 1986 to allow use of cash accounting method for certain small businesses.

1 *Be it enacted by the Senate and House of Representa-*  
2 *tives of the United States of America in Congress assembled,*

3 **SECTION 1. SHORT TITLE.**

4 This Act may be cited as the “Cash Accounting for  
5 Small Business Act of 2001”.

6 **SEC. 2. CLARIFICATION OF CASH ACCOUNTING RULES FOR**  
7 **SMALL BUSINESS.**

8 (a) CASH ACCOUNTING PERMITTED.—Section 446 of  
9 the Internal Revenue Code of 1986 (relating to general

1 rule for methods of accounting) is amended by adding at  
 2 the end the following new subsection:

3 “(g) SMALL BUSINESS TAXPAYERS PERMITTED TO  
 4 USE CASH ACCOUNTING METHOD WITHOUT LIMITA-  
 5 TION.—

6 “(1) IN GENERAL.—Notwithstanding any other  
 7 provision of this title, an eligible taxpayer shall not  
 8 be required to use an accrual method of accounting  
 9 for any taxable year.

10 “(2) ELIGIBLE TAXPAYER.—For purposes of  
 11 this subsection—

12 “(A) IN GENERAL.—A taxpayer is an eligi-  
 13 ble taxpayer with respect to any taxable year  
 14 if—

15 “(i) for all prior taxable years begin-  
 16 ning after December 31, 1999, the tax-  
 17 payer (or any predecessor) met the gross  
 18 receipts test of subparagraph (B), and

19 “(ii) the taxpayer is not a tax shelter  
 20 (as defined in section 448(d)(3)).

21 “(B) GROSS RECEIPTS TEST.—A taxpayer  
 22 meets the gross receipts test of this subpara-  
 23 graph for any prior taxable year if the average  
 24 annual gross receipts of the taxpayer (or any  
 25 predecessor) for the 3-taxable-year period end-

ing with such prior taxable year does not exceed \$5,000,000. The rules of paragraphs (2) and (3) of section 448(c) shall apply for purposes of the preceding sentence.

“(C) INFLATION ADJUSTMENT.—In the case of any taxable year beginning in a calendar year after 2001, the dollar amount contained in subparagraph (B) shall be increased by an amount equal to—

“(i) such dollar amount, multiplied by

“(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year in which the taxable year begins, by substituting “calendar year 2000” for “calendar year 1992” in subparagraph (B) thereof.

If any amount as adjusted under this subparagraph is not a multiple of \$100,000, such amount shall be rounded to the nearest multiple of \$100,000.”.

(b) CLARIFICATION OF INVENTORY RULES FOR SMALL BUSINESS.—Section 471 of the Internal Revenue Code of 1986 (relating to general rule for inventories) is amended by redesignating subsection (c) as subsection (d)

1 and by inserting after subsection (b) the following new  
 2 subsection:

3 “(c) SMALL BUSINESS TAXPAYERS NOT REQUIRED  
 4 TO USE INVENTORIES.—

5 “(1) IN GENERAL.—An eligible taxpayer shall  
 6 not be required to use inventories under this section  
 7 for a taxable year.

8 “(2) TREATMENT OF TAXPAYERS NOT USING  
 9 INVENTORIES.—If an eligible taxpayer does not use  
 10 inventories with respect to any property for any tax-  
 11 able year beginning after December 31, 2000, such  
 12 property shall be treated as a material or supply  
 13 which is not incidental.

14 “(3) ELIGIBLE TAXPAYER.—For purposes of  
 15 this subsection, the term ‘eligible taxpayer’ has the  
 16 meaning given such term by section 446(g)(2).”.

17 (c) INDEXING OF GROSS RECEIPTS TEST.—Section  
 18 448(c) of the Internal Revenue Code of 1986 (relating to  
 19 \$5,000,000 gross receipts test) is amended by adding at  
 20 the end the following new paragraph:

21 “(4) INFLATION ADJUSTMENT.—In the case of  
 22 any taxable year beginning in a calendar year after  
 23 2001, the dollar amount contained in paragraph (1)  
 24 shall be increased by an amount equal to—

25 “(A) such dollar amount, multiplied by

1           “(B) the cost-of-living adjustment deter-  
 2           mined under section 1(f)(3) for the calendar  
 3           year in which the taxable year begins, by sub-  
 4           stituting ‘calendar year 2000’ for ‘calendar year  
 5           1992’ in subparagraph (B) thereof.

6           If any amount as adjusted under this paragraph is  
 7           not a multiple of \$100,000, such amount shall be  
 8           rounded to the nearest multiple of \$100,000.”.

9           (d) EFFECTIVE DATE AND SPECIAL RULES.—

10           (1) IN GENERAL.—The amendments made by  
 11           this section shall apply to taxable years beginning  
 12           after December 31, 2000.

13           (2) CHANGE IN METHOD OF ACCOUNTING.—In  
 14           the case of any taxpayer changing the taxpayer’s  
 15           method of accounting for any taxable year under the  
 16           amendments made by this section—

17                   (A) such change shall be treated as initi-  
 18                   ated by the taxpayer;

19                   (B) such change shall be treated as made  
 20                   with the consent of the Secretary of the Treas-  
 21                   ury; and

22                   (C) the net amount of the adjustments re-  
 23                   quired to be taken into account by the taxpayer  
 24                   under section 481 of the Internal Revenue Code  
 25                   of 1986 shall be taken into account over a pe-

- 1 riod (not greater than 4 taxable years) begin-
- 2 ning with such taxable year.

